

**U.S. CUSTOMS SERVICE
OFFICE OF STRATEGIC TRADE
REGULATORY AUDIT DIVISION**

**COMPLIANCE ASSESSMENT PROCESS
OUTLINE**

- I. One to two years prior to compliance assessment field work
 - A. Identify and rank top 3000 companies and primary focus industries
 - B. Develop national audit plan
 - C. Select compliance assessment candidates
- II. Three to six months (time may vary) prior to compliance assessment field work
 - A. CAT Leader (Auditor in Charge) plans and prepares for the compliance assessment (CA) using Part 2.2 of the Compliance Assessment (Audit) Program
 - 1. Notifies other CAT members of upcoming CA
 - a) Auditors, including computer audit specialist (CAS)
 - b) Industry audit specialist (IAS)
 - c) International trade manager (ITM)
 - d) International trade specialist (ITS)
 - e) Import specialist (IS)
 - f) Account manager (if one is assigned to the company)
 - g) Other specialists as needed
 - 2. Coordinates with members of the CAT to determine questions to ask on general and EDP questionnaires (Exhibits 19 and 20).
 - 3. Coordinates with ITS to prepare account profile
 - a) Provides input to ITS as required during profile development
 - b) ITS provides information to CAT leader on whether Office of Investigations (OI) has opened or planned an investigation of the importer
 - c) When profile is complete, provides it to other CAT members
 - 4. Holds meeting (may be teleconference and not all CAT members may participate at this stage)
 - a) Discusses preliminary scope of compliance assessment
 - (1) Time period to be covered by CA
 - (2) Conditional Check issues to test
 - (3) Information about company obtained by IS from other ports
 - b) Plans advance conference
 - (1) Prepares agenda

- (2) Determines role of each team member during the meeting
 - 5. Schedules advance conference
 - a) Requests senior company official and accounting and management information systems (MIS) representatives attend
 - b) Follows up with letter confirming arrangements
 - B. CAT holds advance conference with company
 - 1. Attendees
 - a) Company corporate officer, import manager, accounting and MIS representatives
 - b) Regulatory Audit field director or assistant field director
 - c) CAT (CAS should attend, but some other team members may elect not to attend)
 - 2. Subjects discussed at the advance conference
 - a) Overview of the compliance assessment process
 - b) Mod Act requirements
 - (1) Shared responsibility
 - (2) Informed compliance
 - (3) Reasonable care
 - c) Prior disclosure
 - d) Compliance assessment team kit (CAT KIT) available on internet at the U.S. Customs Service Web site.
 - C. Provide CAT KIT documents to the importer at the advance conference
- III. During interim between advance and entrance conference
- A. As soon as possible after the advance conference (in cooperation with the company) develop a mutually acceptable timetable to complete the CA, to include:
 - 1. Date for the importer to return completed questionnaires
 - 2. Date to select sample and identify documents for review
 - 3. Agreed upon time for the company to produce the documents
 - 4. Proposed date for field work completion
 - 5. Proposed audit report date
 - B. CAT works with company MIS and accounting representatives to develop sampling frame for transaction tests
 - C. CAT reviews response to questionnaires
 - D. CAT Leader schedules entrance conference
 - 1. Coordinates with team members
 - 2. Coordinates with company
 - 3. Sends engagement letter confirming date
 - E. CAT holds strategy meeting prior to entrance conference
 - 1. Discusses role of each team member in meeting
 - 2. Prepares entrance conference agenda

IV. Entrance conference and beginning of field work

A. CAT holds entrance conference with company

1. Meeting attended by
 - a) CAT members (same as advance conference)
 - b) Assistant field director Regulatory Audit
 - c) Company officials
2. Subjects discussed at entrance conference
 - a) Additional questions not answered in questionnaires
 - b) Preliminary scope of review
 - (1) Accounting system
 - (2) EDP system
 - (3) Internal controls
 - (4) Trade priority areas to be tested (both “common” and “conditional checks”)
 - (5) Sampling frames for trade priority areas
 - (6) Computation of compliance rates
 - (7) Compliance risk categories
 - (8) Consequences of inadequate compliance
 - i) Compliance Improvement Plan (CIP)
 - ii) Follow-up
 - c) Customs responsibility
 - (1) CAT will work together and make joint decisions
 - (2) Keep company informed during assessment
 - (3) Provide company with the names of telephone numbers showing the lines of authority within Regulatory Audit.
 - d) Company responsibility
 - (1) Prompt response to requests for information
 - (2) Cooperation in selecting appropriate sampling frames
 - (3) Following the lines of authority when resolving importer issues
3. Documents to be provided to the company at the entrance conference
 - a) Additional requests for information
 - b) Provide a list of the contact points for resolving importer issues
 - c) Other documents as required

B. CAT tests transactions (Compliance Assessment (Audit) Program steps 2.3-2.8)

1. Review
 - a) Accounting and EDP systems
 - b) Customs procedures and internal controls
 - c) Basis of appraisalment
2. If company elects to use the controlled assessment methodology, it reviews transactions in sample before CAT reviews them
3. Review selected sample items and compute compliance rates
 - a) Common Checks
 - b) Conditional Checks

4. Keep company and other CAT members informed throughout the review
 5. Summarize compliance testing results as they are developed
 - a) CAT should concur
 - b) If appropriate, the CAT will refer to the Enforcement Evaluation Team (EET)
 - c) Discuss findings with company
 - C. If compliance rates are acceptable in all areas tested and internal controls are adequate
 1. Write report
 2. Hold exit conference with the company
 - a) Discuss findings
 - b) Provide a copy of the report
 - D. If compliance rates are unacceptable in any area tested
 1. Apply materiality criteria
 2. Project findings to universe or determine effect based on actuals
 3. If importer does the testing, CAT must review test methods and results
 - E. Company will develop Compliance Improvement Plan (CIP)
 1. The CIP will include
 - a) Specific problems to be corrected
 - b) How the system will be changed
 - c) A time frame for corrections to be made
 2. CAT, including account manager, will provide feedback on technical issues
- V. Audit follow-up (Compliance Assessment (Audit) Program Part 3) If the company's compliance requires improvement
- A. Follow-up in about 6 months to a year
 - B. Or if the company makes corrections while the CA is still in process, follow-up testing of the CIP may take place before the CA is finished, but completion of the CA will not be held up waiting for the importer to complete its CIP
 - C. Test to determine if compliance improved
 - D. Discuss results with the company
 - E. Issue a memorandum to original recipients of report stating results of follow-up (a separate memorandum is needed only if follow-up was a separate process occurring after completion of the original audit)